



CHINA GAS HOLDINGS LIMITED

中國燃氣控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code : 384)

** For identification purposes only*

TERMS OF REFERENCE

AUDIT COMMITTEE

(Adopted on 8 July 2005)

(Amended on 16 November 2007)

(Amended on 20 March 2009)

1. Membership

1.1 The Audit Committee ("Committee") shall be formed from only independent non-executive directors and have at least three members.

2. Secretary

2.1 The Company Secretary shall act as the Secretary of the Committee ("Secretary").

3. Quorum

3.1 The quorum necessary for the transaction of business shall be two (2). A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in, or exercisable by, the Committee.

4. Frequency of Meetings

4.1 The Committee shall meet at least two times every financial year. Additional meetings should be held as the work of the Committee demands.

4.2 Meetings of the Committee shall be summoned by the Secretary at the request of any one member of the Committee. The Secretary shall convene a meeting of the Committee of which notice may be given in writing or by telephone or in such other manner as the Committee may from time to time determine.

5. Minutes of Meeting

5.1 The Secretary shall minute the proceedings and resolutions of all Committee meetings.

5.2 Draft and final versions of minutes of Committee meetings shall be circulated to all members of the Committee for their comments and records respectively and once unanimously agreed, shall be made available to other members of the Board.

6. Responsibilities, Powers and Discretions

6.1 Internal Control and Risk Assessment

6.1.1 The Committee shall keep under review, with the external auditors, the internal audit department and the management of the Company, the Company's financial controls, internal controls and risk management system.

6.1.2 The Committee shall discuss with the management the system of internal control and ensure that the management has discharged its duty to have an effective internal control system including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programs and budget.

6.1.3 The Committee shall review the findings of internal investigations into any suspected frauds or irregularities or failures of internal controls or infringements of laws, rules and regulations and consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response.

6.1.4 The Committee shall review the Company's statement on internal control systems prior to endorsement by the Board. However, primary responsibility for the foregoing will remain with the Board.

6.2 Monitoring of Internal Audits

6.2.1 The Committee should ensure co-ordination between the internal and external auditors and ensure that the internal audit function is adequately resourced and has appropriate standing within the Company and to review and monitor the effectiveness of the internal audit function.

6.2.2 In reviewing the work of the internal audit function, the Committee should:

- (i) ensure the internal auditor has direct access and reports to the audit committee;
- (ii) review the annual internal audit plan;
- (iii) require periodic reporting from the internal auditor; and
- (iv) monitor the management's responsiveness to the internal auditor's findings and recommendations.

6.3 Monitoring of External Audits

6.3.1 The Committee shall consider and make recommendations to the Board on the appointment, re-appointment, removal and any questions of resignation or dismissal of the external auditors of the Company.

6.3.2 The Committee shall consider and approve the level of audit fees which should be paid as well as any other fees which are payable to the auditors in respect of non-audit activities.

6.3.3 The Committee shall review the extent of non-audit services provided by the external auditors in relation to their independence.

- 6.3.4 The Committee shall review and monitor the external auditors' independence and shall meet with the external auditors every financial year at the planning stage, the scope of the audit will be considered and at the post audit stage, the control procedures and steps taken by the auditors.
- 6.3.5 The Committee shall review the draft representation letter prior to the approval by the Board.
- 6.3.6 The Committee shall discuss with the external auditors any relevant recommendations arising from the audit and review the draft management letter including management's response to the point raised.
- 6.4 Financial Statements
- 6.4.1 The Committee shall keep review, with the management of the Company, the consistency and appropriateness of accounting policies and practices both on a year-to-year basis and across the Company and the Group.
- 6.4.2 The Committee shall review, where necessary, challenge the Company's financial statements (before submission to the Board) taking into account:
- (i) any changes in relevant policies and practices;
 - (ii) the extent to which the financial statements are affected by any unusual transactions;
 - (iii) the clarity of disclosures;
 - (iv) major judgmental areas;
 - (v) significant adjustments resulting from the audit;
 - (vi) compliance with relevant accounting standards; and
 - (vii) compliance with the Hong Kong Listing Rules and other legal requirements in relation to financial reporting.

6.5 The Committee is granted the authority to investigate any activity within its terms of reference and all senior management and other employees are directed to cooperate as requested by members of the Committee. The Secretary could provide necessary assistance to the Committee to obtain the information as requested by the Committee. The Committee should keep confidentiality on the information they obtained from the Group.

6.6 In connection with its duties the Committee is authorised by the Board to obtain outside legal or other independent professional advice at the Company's expense.

6.7 The Committee shall consider other topics as defined by the Board of the Company.

7. Reporting to the Board

7.1 The Committee shall report to the Board any suspected frauds and irregularities, failures of internal control for finance and accounting and operational processes, or suspected infringements of laws, rules and regulations which come to its attention.

8. Annual General Meeting

8.1 The Chairman of the Committee shall attend the annual general meeting of the Company and be prepared to respond to shareholders' question on the activities of the Committee.

9. Other

9.1 The Committee shall review annually its terms of reference, performance and constitution and recommend any changes it considers necessary to the Board for approval.

9.2 The Committee should make available its terms of reference, explaining its role and the authority delegated to it by the Board.